

ENERGY RESOURCE INVESTMENT PLAN SECOND QUARTERLY REPORT

OVERVIEW

The California Power Authority (CPA) closes its second quarter having produced an investment portfolio that include programs which meet our statutory mandate: “to furnish the citizens of California with reliable and affordable electrical power (Public Utilities Code Section 3300)”.

The CPA has been participating in the California Public Utilities Commission (CPUC) proceeding on generation procurement and renewable resource development. The uncertainty surrounding a market or buyer of new renewable resources is an issue the CPA is working to help define and has addressed in testimonies and filings with the CPUC. The CPA continues to promote the “Clean Growth” strategy outlined in the Energy Resource Investment Plan by launching programs that offer a clean solution to California’s energy needs.

The 2002 Legislative Session is winding to a close and with an August 31 date looming as the deadline for all bills to pass out of the Legislature for action by the Governor a number of energy-related bills have been downsized. However, one bill in particular has been moving rapidly through the Legislature (SB 1261), which authorizes the Energy Commission to transfer a power plant certification – one already granted to a project developer to commence construction of a power plant – to the CPA to complete construction if deemed necessary. This bill underscores the role of the CPA as the “builder of last resort” if the market fails to complete critically needed projects.

CPA Second Quarter Highlights

Demand Reserves Partnership Program
Energy Financing Industrial Development Bond Program
Public Leadership Solutions for Energy
Public Schools Solar Program
San Francisco Reliability Project
Reserves Rulemaking Proceeding
Financing of Real Time Meters for Small Businesses

CPA CLEAN GROWTH PORTFOLIO TO FILL GAPS

The Power Authority’s activities continue to correspond with the three identified gaps outlined in the Energy Resource Investment Plan. Second quarter accomplishments include programs that help to ensure energy reliability and affordability as well as continued investments in clean renewable resources for the State.

Gap: Lack of Clean Energy Financing

The CPA is facilitating the financing of clean resources – renewable energy, energy efficiency and clean on-site power technologies.

Projects:

Industrial Development Bond Program – In March, the California Debt Limit Allocation Commission awarded the CPA with \$30 million in tax exempt bonding authorization to administer through the Energy Financing Industrial Development Bond Program that enables private companies to apply for low cost loans. The loans can be used for increasing the production size or purchasing and installing clean energy equipment.

Gap: Lack of Strategic Reserves

The CPA is targeting resources to help meet peak demand and system or local reserve needs.

Projects:

The Demand Reserves Partnership program – The CPA has launched a statewide program using advanced automation technology to dispatch load reduction that will offset the Department of Water Resources (DWR) ancillary services charges. The program encourages business to reduce electricity usage at times of high demand in exchange for monthly reservation fee payments. DWR can use the demand reduction as part of their operating reserve needs.

San Francisco Project – The CPA is facilitating the construction on behalf of the San Francisco International Airport a 50 MW peaking facility. This is an important project for the City of San Francisco due to the serious local electric distribution problems. A letter from the California Independent System Operator to the CPA confirmed the area's vulnerability and strongly encouraged the CPA to proceed with any new generation.

Real Time Metering – The CPA is arranging the financing of up to \$10 million for an advanced metering program for California small businesses with peak electricity demand between 50kW and 200kW. The program will allow the financing and installation of up to 10,000 interval meters and provide businesses and other small non-residential power users with the following:

- 1) Access to time of use (TOU) tariff schedules and rate schedule optimization, and
- 2) Web-enabled secured access to daily interval energy data through information tools provided over a secure website.

Reserves Rulemaking – The CPA will commence the Reserves Rulemaking proceeding to determine the level of reserves that the Authority should target to carry out an important mission of the CPA, which is to “achieve an adequate energy reserve capacity in California within five years of the effective date of this division.” Outlined in the ERIP as a critical piece in preventing blackouts and maintaining a stable market, the CPA will conduct this process publicly and gather information from existing sources, as well as, requesting the participation of the sister state agencies.

Gap: Insufficient Incentives for Greening Public Buildings

The CPA is targeting clean resources to meet by 2006 twenty percent of the estimated 3,300 MW electricity demand of all public buildings – state and local government, K-12 schools, CSU and UC college system and possible participation of federal facilities

Projects:

Public Leadership Solutions for Energy – PULSE is set up as a public agency loan fund to help public agencies secure financing to manage energy needs and costs. The program promotes cost-effective energy efficiency and clean on-site power generation. The Power Authority announced the PULSE fund on Thursday, July 11, 2002. The overall marketing and out reach activities have been launched and on-going discussions with both public and private sector stakeholders will further define targeted marketing and promotional opportunities.

Public Schools Solar Program – The CPA will administer a new fund financed by state power contract settlements to pay for solar systems installed at schools across the state.

ACCOMPLISHING THE CLEAN GROWTH PORTFOLIO**ENERGY FINANCING INDUSTRIAL DEVELOPMENT BOND PROGRAM**

Launched near the close of CPA's first quarter activities, the Industrial Development Bond program (IDB) had received much interest from those manufacturers of renewable and clean energy technologies. The CPA team pursued intensive outreach efforts and developed a complete screening and review process for the 12 applications received by the closing date of May 21, 2002. With a financial advisor, bond counsel and technical advisors from the California Energy Commission representing the review team, the CPA staff has progressed with a due diligence process that has led to the selection of five applications and have been forwarded to the underwriting firms.

Beginning this third quarter, the CPA team will bring to the Board first round award recommendations and proposed loans for approval; soon after, the issuance of bonds for selected applications will begin.

With funds not fully allocated during the first round, the CPA opened a second round of applications for IDB awards to be issued by November, as required by the California Debt Limit Allocation Committee conditions for this program.

DEMAND RESERVES PARTNERSHIP PROGRAM

The DRP program will provide up to 500 MW of reserve capacity for DWR by the close of this year. The CPA staff teamed up with the Flex Your Power Campaign to target a broad range of potential customers – local government, trade associations, businesses, water districts and manufacturers. Two weeks after launching the DRP, the CPA's six DRP Providers had signed up customers to deliver 6 MW of dispatchable load. The Providers continue to receive additional leads from the Flex Your Power Team to sign up more customers.

SAN FRANCISCO RELIABILITY PROJECT

Currently, the CPA is working as the project developer to help in the permitting process at the Energy Commission. The San Francisco Public Utilities Commission SFPUC is working to develop a special financing mechanism known as certificates of participation. The CPA will move forward with the City of San Francisco and SF PUC on final terms this next quarter.

FINANCING OF REAL TIME METERS FOR SMALL BUSINESSES:

The CPA program to facilitate private financing of up to 10,000 advanced interval meters and communications systems for small non-residential facilities will pave the way for future load and price responsive programs.

A statement of terms will be finalized on July 19 by the Board, which allows True Energy, LLC. to begin work with the CPA and underwriters to facilitate financing arrangements – the lending will not come from the CPA. A loan transaction will be completed between TrueEnergy and CitiCapital in August and meter installation will commence within 90 days of loan closure.

PUBLIC LEADERSHIP SOLUTIONS FOR ENERGY (PULSE)

An aggressive push has been made by the CPA to line up vendors, developers and manufacturers that can offer a menu of energy improvements, such as efficiency, meters, building controls, distributed generation, solar and fuel cells to benefit public agency facilities statewide. This public agency loan fund will secure financing for public agencies to make cost effective energy improvements. Working with a team of underwriters, bond counsel and a financial advisor, the CPA will target early fall to issue bonds in the range of \$50 to \$100 million.

RESERVES RULEMAKING

At the close of this second quarter, the CPA will commence a rulemaking proceeding to determine the level of reserves that the CPA should target to carry out its mission effectively. A scope of the proceedings, a proposed schedule and draft proposal outlining initial thoughts will be brought before the Board for approval on July 19. A request will be made to invite the heads of sister state agencies (PUC, CEC, DWR and the ISO) for their participation in the reserves rulemaking process beginning next quarter.

PUBLIC UTILITIES COMMISSION PROCUREMENT PROCEEDING

The CPA is currently participating in the Public Utilities Commission's Order Instituting Rulemaking regarding cost recovery mechanisms for generation procurement and renewable resource development by filing its testimony to the PUC on May 6.

PUBLIC SCHOOL SOLAR PROGRAM

Directed by the Attorney General's office to develop the initial program, starting with \$1.5 million of an expected \$2.75 million, the CPA has developed program guidelines granting settlement proceeds to California public schools for solar installations. The CPA will join forces with the CEC who will assume responsibility for administering the

program in conjunction with their solar buy-down incentives and their local government energy loan experience. Working in conjunction with the CEC will maximize our respective resources such as lists of certified vendors and technology specific installer licensing requirements. The CPA anticipates that the first grants for solar installations will commence by the close of third quarter.

CPA Investment Portfolio Projects		
Programs	Financing (\$)	MW
Clean Energy Financing		
Industrial Development Bonds	\$30 million	n/a
Strategic Reserves		
Demand Reserves Partnership	n/a	500-1000 MW
San Francisco Project	n/a	50 MW
Greening Public Buildings		
Public Leadership Solutions for Energy	\$25 million (initial round)	n/a
Public Schools Solar Program	\$2.75 million	n/a

Utility Bill Repayment Workshop

In January, the CPA submitted a proposal requesting the CPUC approve a mechanism to use utility bills to collect customer payments for CPA-arranged financing of energy efficiency or on-site renewable energy investments. On June 19, the CPUC and CPA conducted a joint workshop to discuss specific issues with the Utility Bill Repayment proposal. The CPUC has not yet taken final action on this proposal.

CPA INTERAGENCY ACTIVITIES

Energy Agencies Joint Meeting

On June 7, the first Joint Meeting of the California Public Utilities Commission, Energy Commission, and Power Authority members and commissioners took place for the purpose of sharing information about 2002 energy efficiency, distributed generation and demand response programs administered by each agency. With more than 250 members of the public attending and another 250 participating via web-cast and telephone, substantive discussions took place on residential sector, non-residential sector and multiple sector programs.

An agreement was made to continue to hold the Joint meeting on a quarterly basis. The next meeting will be hosted by the California Energy Commission and the topic of discussion will be generation issues.